



# BELLVILLE INDEPENDENT SCHOOL DISTRICT

## FUND BALANCE STRATEGY

### ***WHAT IS FUND BALANCE?***

Fund balance is the difference between a fund's assets and its liabilities. Fund balance serves as a measure of the financial resources available in a governmental fund. The operating or general fund of the district is of primary significance because it is the largest fund and accounts for the operations of the district. Although often referred to as the district's savings, the total fund balance is not a depiction of the amount of cash in the bank or investments. The fund balance is a snapshot in time, with balances fluctuating daily. Saving accounts represent money set aside for special purposes, fund balances are not savings accounts as they are tied to operating activities and the district's ongoing financial health.

### ***WHY IS FUND BALANCE IMPORTANT?***

Key reasons to maintain a healthy fund balance. First, fund balance provides liquidity and the resources to fund expenditures when a steady resource stream is not available. Approximately 65% of the districts revenues consist of local revenues of which the majority of these resources are property tax collections. The taxes collected in December and January are used to fund expenditures year round.

Fund balance can also provide a resource for financial contingencies or emergency needs. Fund balance is commonly used to fund one-time expenditures or provide relief in years of budget cuts, revenue shortfalls, or emergency situations.

Maintaining adequate levels of fund balance will help mitigate current and future risks and ensure stable tax rates. Fund balance levels are a crucial consideration in long term financial planning.

Finally, bond rating agencies consider a district's fund balance level as a key indicator of fiscal health. In addition, the adoption of a policy regarding the protection and use of fund balance is viewed as good management practice. Despite the AAA rating of the PSF (Permanent School Fund), investors today are looking more to the issuer's underlying rating. The higher the underlying rating, the lower borrowing costs are for the district.

### ***WHAT IS AN APPROPRIATE FUND BALANCE LEVEL?***

There is no requirement per se for a certain fund balance level and the level that should be maintained varies depending on the source. TEA has set a rule of thumb to compute the optimum fund balance in the General Fund. The rule calls for the computation of the optimum uncommitted fund balance to equal the estimated amount to cover cash flow deficits in the General Fund plus two of operating cash.

The Government Finance Officers Association (GFOA) recommends, at a minimum, that unrestricted fund balance general funds should be no less than two months of regular operating revenues or operating expenditures. The adequacy of unrestricted fund balance in the general fund should be assessed based upon a government's own specific circumstances and may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. A variety of factors include:

- 1) The predictability of its revenues and the volatility of its expenditures. (emergency outlays, tax collection)
- 2) The perceived exposure to significant one-time outlays. ( disasters, immediate capital needs, state budget cuts, insurance deductibles, mechanical failures)
- 3) The potential drain upon general fund resources from other funds as well as the availability of resources in other funds.
- 4) Liquidity
- 5) Commitments and assignments

The Texas Association of School Business Officials (TASBO) also cites GFOA's recommendation of a minimum of two months of revenues or expenditures but goes on to state **Fund balance is not a one-size fits all school finance management issue for local school districts.**

The Texas Education Agency's (TEA) optimum fund balance calculation required school districts to add two months of cash disbursements to amounts needed to cover any cash flow deficits that may exist over the course of a year. This in effect results in a fund balance of 3-4 months of operating expenses. The optimum fund balance calculation is no longer required by TEA.

While there is clear justification for the existence and maintenance of a healthy fund balance, there is no definitive guidance as to what constitutes a healthy fund balance. Therefore, each school district is to review its own operations, goals, and challenges in setting a policy that will serve as the entity's financial road map.

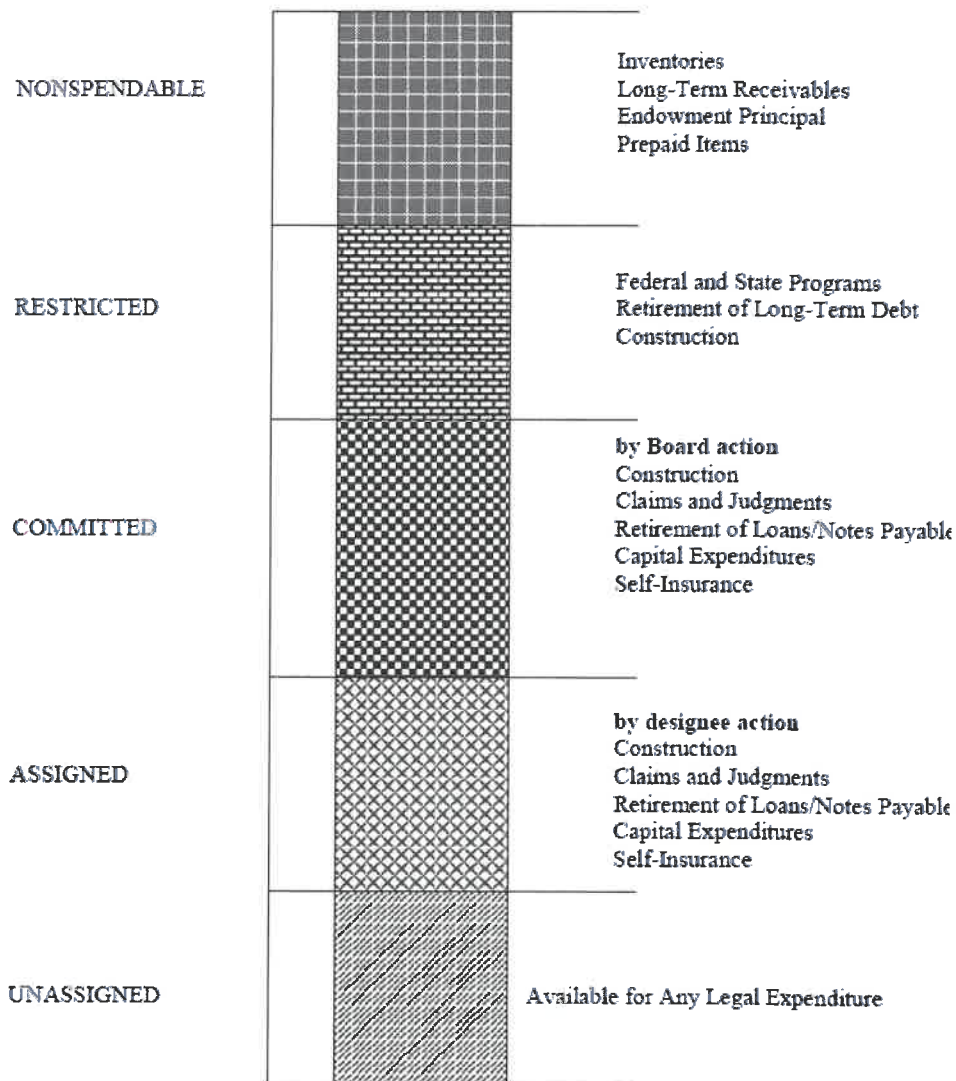
### ***FUND BALANCE REPORTING AND GOVENMENTAL FUND TYPE DEFINITIONS***

GASB 54 expanded the reporting and fund types to five classifications of spending constraints for which resources can be used:

- **Non-spendable fund balance** – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund), prepaid expenses, long-term receivables
- **Restricted fund balance** - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation. (state and federal programs, construction bond funds)

- **Committed fund balance** – amounts constrained to specific purposes by the government itself. This requires formal action by the Board of Trustees. Commitments may be changed or lifted only by the Board of Trustees taking the same formal action that imposed the constraint originally. (committed for construction, claims & judgements, capital expenditures, self-insurance)
- **Assigned fund balance** – amounts intended to be used by the District for specific purposes. Intent can be expressed by the Board of Trustees or by an official or body to whom the Board of Trustees delegates the authority. In governmental funds other than the general fund, assigned fund balance represent the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund. (An amount appropriated from existing fund balance to eliminate a projected budgetary deficit in the subsequent year)
- **Unassigned fund balance** - is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

Elements of Fund Balance Post-GASB 54



**GASB 54 – BOARD ADOPTED RESOLUTION**

STATE OF TEXAS  
COUNTY OF AUSTIN

**RESOLUTION TO ADOPT GASB 54**

The Board of Trustees of the Bellville Independent School District being convened in Regular Session at its regular meeting place within the boundaries of the Bellville Independent School District, on the 25<sup>th</sup> day of August, 2011, with a quorum present in the persons of:

Karen Winn	Robert Winkelmann	Buch Eckermann	Ann Graham
Dusty Yantis	Rocky Luetge	Bobby Pier	

Trustees being absent: None

WHEREAS Trustee Bobby Pier introduced the following order, Dusty Yantis moved its adoption, and the motion having been seconded by Trustee Dusty Yantis was duly put and carried, said Order reading as follows:

**IT IS HEREBY RESOLVED**, ordered, and directed that the Bellville Independent School District adopts Governmental Accounting Standard Board Statement (GASB) 54 effective August 25, 2011. To comply with GASB 54, the following policies will be adopted:

- The District shall report governmental fund balances per GASB 54 definitions in the balance sheet as follows:
  - Nonspendable
  - Restricted
  - Committed
  - Assigned
  - Unassigned
- The Board of Trustees shall approve all commitments by formal action. The action to commit funds must occur prior to fiscal year-end, to report such commitments in the balance sheet of the respective period, even though the amount may be determined subsequent to fiscal year-end. A commitment can only be modified or removed by the same formal action.
- The Board of Trustees delegates the responsibility to assign funds to the Superintendent or his/her designee. The Board of Trustees shall have the authority to assign any amount of funds. Assignments may occur subsequent to fiscal year-end.
- The Board of Trustees will utilize funds in the following spending order:
  - Restricted
  - Committed
  - Assigned
  - Unassigned

  
Robert Winkelmann, President  
Bellville I.S.D. Board of Trustees

Attest:  
  
Karen Winn, Secretary  
Bellville I.S.D. Board of Trustees

## **BELLVILLE ISD FUND BALANCE PROCEDURES**

### **Purpose**

The purpose of these procedures is to establish a key element of the financial stability of the District by setting guidelines for fund balance. Unassigned fund balance is an important measure of economic stability. It is essential that the District maintain adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. The fund balance also provides cash flow liquidity for the District's general operations.

### **Classifications**

Fund balance will be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- **Nonspendable fund balance** – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund)
- **Restricted fund balance** - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation.
- **Committed fund balance** – amounts constrained to specific purposes by the government itself. This requires formal action by the Board of Trustees. Commitments may be changed or lifted only by the Board of Trustees taking the same formal action that imposed the constraint originally.
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- **Unassigned fund balance** - is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

### **Special Revenue Funds with Restricted Fund Balance**

The Board of Trustees resolves that all special revenue funds which receive funds from a grantor agency at the federal, state or local level and hence are constrained to spend those funds on a specific purpose as dictated by the grantor agency will report restricted fund balance for those special revenue funds based on the definition described within this policy.

### **Authorization and Action to Commit Fund Balance**

The Board of Trustees is the District's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Board at a District meeting. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

**Special Revenue Funds with Committed Fund Balance**

The Board of Trustees is committing fund balance via this fund balance policy for the following Special Revenue Funds:

Campus Activity Funds for funds generated at the campuses.

Child Nutrition Funds for funds generated by the child nutrition department.

Educational Foundation Funds for funds generated by the Educational Foundation

BISD Museum Funds for funds generated by the BISD Museum

**Authorization and Action to Assign Fund Balance**

The District has designated the Superintendent and his/her designee as the officials who are authorized to assign fund balance to a specific purpose as approved by this fund balance policy. Authorized officials must approve each assignment before the item can be presented in the financial statements. Assignments of fund balance do not require formal action by the Board of Trustees and can be made subsequent to year end.

**Minimum Unassigned Fund Balance**

The District will strive to maintain an unassigned fund balance of not less than 25% (3 months operating) of the budgeted operational expenditures on all District's general fund. Due to the volatile nature of a majority of its revenues, it is not deemed excessive for the District to maintain fund balance in the General Fund at a level greater than 33% of the budgeted operational expenditures. The purpose of this unassigned fund balance is to alleviate significant unanticipated budget shortfalls and to ensure the orderly provisions of services.

**Order of Expenditure of Funds**

When multiple categories of fund balance are available for expenditure the District will start with the most restricted category – spending those funds first – before moving down to the next category with available funds.

## **BELLVILLE ISD: FUND BALANCE GOALS & OBJECTIVES**

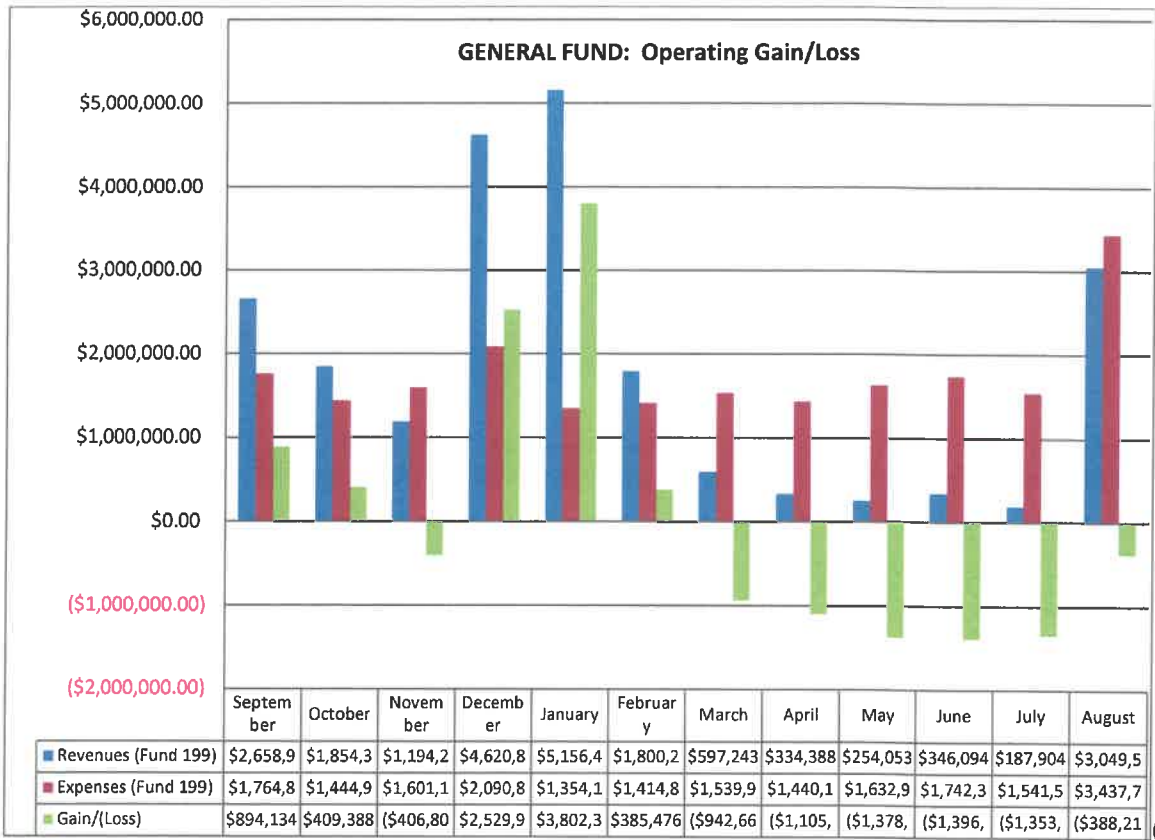
### *GOALS*

- I. Maintain a minimum fund balance in the unassigned general operating fund to maintain fiscal independence.
- II. Set minimum unassigned general operating fund balance to mitigate risk and ensure cash is available when revenue is unavailable.
- III. Provide a sustainable general fund balance to pay operating expenses and sustain district operations. (Fund Balance is integrated not separated from our operating activities.)
- IV. Establish a minimum unassigned general fund balance to maintain operations between revenue streams.
- V. Demonstrate financial stability to enhance district bond ratings for lower interest rates.
- VI. Provide ongoing support for education programs.
- VII. Set minimum fund balances, not targets or maximums.
- VIII. Create a committed stabilization fund for emergency or contingencies.
- IX. Commit funds above unassigned minimums in the general fund for capital improvements as they align with long-range planning strategies when appropriate.

**FUND BALANCE STRATEGIC FACTORS**

- I. Bellville ISD is under Payment Class 3 for Foundation School Fund Payments. Under Payment Class 3 Foundation Funds are paid:
  - 45% - September
  - 35% - October
  - 20% - August

Under Payment Class 3 there is funding lag periods in which expenses exceed revenues. This deficit spending occurs on average seven (7) months out of the year.



- II. The largest revenue gap occurs after tax collections in January through August. The average decrease in cash during this time period \$6.65 million.
- III. The incorporation of current year property values into the states formula funding mechanism has eliminated local revenue growth as a function of local property taxes. This action reduces future fund balance growth possibilities.



## BELLVILLE ISD FUND BALANCE ALLOCATION STRATEGY

### General Fund

- I. Maintain a minimum of four (4) months operating in the unassigned general operating fund balance classification to sustain fiscal independence and district operations.
- II. Excess fund amounts above the four month minimum unassigned general fund balance flow into the committed stabilization fund up to a maximum of one-million dollars. The stabilization fund sets these funds aside for use in emergency situations or when revenue shortages or budgetary imbalances arise. These circumstances are not routine in nature or predictable. Stabilization funds can be used for emergencies arising out of natural disasters, responses to emergency plans, intervention to prevent worsening situations, un-anticipated revenue shortfall and financial exigency through a board approve resolution.
- III. Funds in excess of the committed stabilization fund shall be committed to align with the district’s capital improvement plan, self-insurance obligations, reserves for residential placement and other specific commitments that may arise. Funds that are not committed shall then remain in the unassigned general fund balance in excess of the minimum.



### Special Revenue Funds

- I. No minimum balance required

### Debt Service Funds

- I. No minimum balance required

### Enterprise Funds

- I. No minimum balance required



# BELLVILLE INDEPENDENT SCHOOL DISTRICT

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## 2020-2021

### GENERAL FUND BALANCE ALLOCATION RECOMMENDATION

RECOMMENDATION: Apply the allocation strategy to the fund balance amount as of August 31, 2020.

Step 1: Determined the minimum unassigned fund balance by using the 2020-2021 operating budget's four (4) month average operating cost. The 2020-2021 original operating budget of \$22,858,822 yields a four (4) month unassigned fund balance of \$7,619,607.

Step 2: Maintain the stabilization fund at \$1,000,000

Step 3: Align remaining amounts to the district's self-insurance obligations, reserves for residential placement and capital improvement plan. Current amounts for self-insurance obligations and residential placement are in line with current liabilities. All remaining funds are recommended to be committed into the Construction Fund Balance minus \$87,412 (remaining amount uncommitted for WE Roofing Project) for current and future capital improvement needs as outlined in the district's facility assessment and long range plan.

